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Reward Systems

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More than half of American consumers carry frequent- shopper cards in their wallets, according to ACNielsen, and supermarket operators are perhaps the biggest initiators of these loyalty programs. While some estimate that more than a third of all supermarkets offer such programs, most observers agree that only a handful are doing so efficiently and effectively.

Many supermarket companies are now grumbling about the cost of maintaining frequent-shopper programs, and often find themselves awash in a flood of customer data, and questioning the value of such far- reaching factoids about their shoppers.

Nonetheless, no one is abandoning the effort. 'A well-run loyalty program can yield a net-margin increase of 30 percent,' said Barry Kotek, managing partner of **Retail** Systems Consulting of Naples, Fla. 'Supermarkets are huge users of these programs, but there are only six or seven chains using them effectively.'

Many convenience store operators have been observing the supermarket experience with loyalty programs in recent years. Rewarding frequent shoppers while building a database that can facilitate direct-marketing efforts is certainly appealing, but convenience operators would do well to design programs that fulfill their customer needs and their own business goals within the confines of the convenience operating model, experts say.

'I wouldn't use supermarkets as the model for loyalty programs if I were a convenience **retailer** ,' observed Neil Raphel, vice president of Raphel based in Atlantic City, N.J. 'The convenience store is a completely different shopping experience. People want to be in and out quickly and are looking for select items. You don't want to slow the transaction time with additional steps. There's also a technology issue - convenience operators are not at the same place as the supermarkets as far as automating. Convenience **retailers** will want to look to programs that are not as software dependent.'

Developing an effective loyalty program starts with defining the goals of the initiative. 'In general, the overall objective is driving increased frequency of visits and average purchase size,' said Rob Little, director of marketing and sales at National Bancard Services of Minneapolis, Minn., which develops customized **retail** -loyalty programs. 'From there, you grow greater revenues and profits.'

'It's an outright fallacy that the card itself will increase profits,' warned Brian Woolf, president of **Retail** Strategy Center of Greenville, S.C., and author of Customer-Specific Marketing (Teal Books, 1996). 'Profits don't come from the card, but from the information that the card facilitates and how you use it.'

Specifically, loyalty programs provide two distinct benefits to **retailers** ; convenience operators can opt to capitalize on one or both, depending upon how ambitious they are and the resources available. The first is rewarding frequent shoppers, which helps differentiate the **retailer** and build a relationship with the customer that increases the

competitive edge. 'For the convenience store, you're doing a lot of business with the same people every day - there's a habitual purchase, maybe coffee or a soft drink they come in for each day,' observed Raphael. 'It's good business to reward them with something of value to show your appreciation, like a coffee mug or free beverage, People will respond to that.'

Information Gathering

The evolution of the reward program leads to information gathering. Through a frequency-buying program, such as a 'Buy 10 soft drinks, get the next one free' **promotion**, **retailers** can build a database by requesting customer names, addresses and basic demographic information on the program cards. 'The key to loyalty marketing is understanding that 20 percent of your customers drive 80 percent of your business, so you want to identify that 20 percent,' said Kotek. 'Then you devise marketing plans that treat them differently than the cherry-pickers, such as special **promotions**, discounts or additional rewards.'

Basic demographic information on the frequent shoppers can easily be obtained and developed into a database without much automation. But the next step in information-gathering does require scanning or some type of automated system integrated into the **POS** system.

'The first phase is to get to know who your shoppers are,' Kotek said. 'Ultimately, with scanning, you then can get into **UPC** -level data by individual customer through tying the loyalty program to the scanning system at the **point of sale**. That's when you can develop highly targeted marketing programs that focus your spending against the best customers, incenting them to come in with special offers and, ultimately, directing them to buy from areas they're not shopping.'

Recent advances in automation allow **retailers** to provide real-time rewards at the **POS**. When the customer makes a purchase, the clerk is informed by the **POS** system that the shopper is due a percent discount or a free item. Some charge-card issuers, such as American Express, have initiated such programs with supermarkets and other **retailers**. DRB Systems, a software company based in Uniontown, Ohio, offers a variety of real-time loyalty-program products that are integrated with **POS** systems and can tie in with both car wash and c-store operations.

According to Director of Sales Jerry Smitley, such high-tech programming also allows the store staff to be high-touch.

'Not only can you automatically deliver the reward at the **point -of-sale**, but the clerk can also greet the customer by name once the card is swiped or read,' he said. 'That adds a lot to the program.'

Keep It Simple

Whatever level of loyalty-marketing programs convenience **retailers** opt to implement, one rule should apply throughout all aspects of the initiative: Keep it simple. That rule applies especially to customer involvement. 'We've found that people don't have a problem filling out a quick application form if there is a reward for doing so,' said National Bancard Services' Little. 'But the application has to be simple, maybe asking for basic demographics and three quick questions. And there's got to be an immediate **incentive**.'

Determining the incentives that will motivate customers might take some legwork. Kotek recommends surveying customers, either by mail or in-store. 'From the beginning, this is about communicating with the customer,' he explained. 'So you want to make sure you find out from them what will keep them coming in as far as a reward. Talk to the regulars in your store to find out what's valuable to them.'

The program should be easy for customers to comprehend and utilize, and simple for cashiers to administer. Scanning is perhaps the easiest format, especially if a real-time reward feature is involved. While punch cards are equally as easy, one element to be aware of with such programs is fraud. 'Everyone has a puncher, and people will scam that free soda or gallon of milk without thinking twice,' Raphael said. Frequency-buy programs that utilize stickers applied by the cashier or some other store-specific element are recommended as an alternative to punch-card programs.

Once customers are enrolled, keep them coming back for more with

exciting **promotions** or events tied to the loyalty program. 'Go with fun programs that will grab their attention and remind them of the program,' Raphael said. 'You can't just sign them up and put the onus on them to make use of the card or whatever. Remind them constantly.'

The cashier is the most important promoter of the loyalty program. 'Every time a sale takes place, the cashier should ask, 'Are you a member of the preferred-customer program?' That drives enrollment and participation because the exchange takes place at the **POS** when the customer is thinking about the issue,' said Little.

Taking the program to the next level - database development - requires some forethought. Thanks to scanning capabilities, supermarket **retailers** are able to capture an impressive range of data on their shoppers. However, many now feel overwhelmed by the volume of data. 'Supermarkets are now faced with information overload,' Kotek observed. 'It's important to figure out how deep you need to go to translate the data into effective marketing programs.'

This is where the all-important cost-to-benefit analysis needs to kick in. Before collecting the data, **retailers** should determine what they ultimately want to accomplish and then outline the information that they need to do so, according to Woolf. 'What information is of value to you in running your business? Define that, and then you can use it effectively and get the most out of your investment,' he said.

'Ultimately, no matter what type of program you do, you need to balance the cost against how much your customers are spending in the store,' Raphael added. 'Given the smaller transaction size of the convenience store versus the supermarket, the **incentive** doesn't have to offer a direct cash correlation, like a percent off purchase. Be creative and find other ways of rewarding people that are not as cash-intensive.'

Forming alliances is one option for defraying the cost of loyalty-marketing programs. Cooperative programs with non-competitive **retailers**, such as area dry cleaners, supermarkets or car washes, also reduce the number of cards to be carried by the customer, further simplifying their participation while expanding the benefits.

Manufacturers can also be tapped as potential partners in loyalty-marketing efforts. Winslow's Gourmet Coffee parent company New England Coffee Co. of Malden, Mass. offers a Coffee Club Card program as part of its partnership initiative with the convenience channel, according to David Vittorio, marketing manager. 'The **retailer** sets the rewards criteria - 10 purchases for one free, or a travel mug - and we share the cost of the program,' Vittorio said. The card features the **retailer**'s name and may or may not include the Winslow's logo as well. Merchandising materials are also supplied by New England Coffee to promote the Club Card program. 'The shopper's name and address is written on the back when the card is turned in for the reward. In that way, the **retailer** can begin to build a database. The program has a lot of zip to it, and we're glad to support it.'

Protecting the privacy of customers is an important element of any loyalty-marketing program and **retailers** must inform participants of the steps they will take to do so. 'First, allow an opt-out for any customer who does not want to give their information, but does want the benefits of the frequent-shopper card,' advised Kotek. 'Second, guard the database with your life. Do not give out any names, addresses, or customer-specific purchasing information to third parties.'

As more and more convenience **retailers** move toward scanning, the ability to enact comprehensive loyalty programs that provide the dual benefit of rewarding customers and gathering crucial data will increase. But even the simplest program can drive sales. 'This is a big opportunity for convenience stores, especially because they can learn from the experiences of other **retailers**,' said Raphael. 'Identifying your best customers and rewarding them can only serve to drive business.'

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